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The Effects of the China-Pakistan Economic Corridor on India-Pakistan Relations

Christian Wagner

The China-Pakistan Economic Corridor (CPEC) constitutes one of the largest foreign investments China has made in the framework of the “One Belt, One Road” initiative. The expenditures planned for the coming years in the amount of approximately \$46 billion will further intensify relations between China and Pakistan. At the same time, Pakistan will assume a more prominent role in China’s foreign policy. But CPEC also affects relations between India and Pakistan. The transport corridor between Pakistan and China traverses Jammu and Kashmir, the status of which has been a subject of contention between India and Pakistan since 1947. This constellation would seem to suggest a negative scenario whereby CPEC could place additional strain on India-Pakistan relations. On the other hand, a positive scenario is also conceivable, with a settlement of the Kashmir dispute even becoming possible in the long term.

CPEC plays a key role in China’s foreign policy, linking infrastructure measures aimed at establishing a “New Silk Road” (one road) running through Central and South Asia with efforts to create a “Maritime Silk Road” (one belt) in the Indian Ocean. The two routes are to meet in the Pakistani port city of Gwadar in the Balochistan Province, the development of which China has been promoting for many years.

Upon completion, CPEC will form a network of roads, railways and gas pipelines encompassing approximately 3,000 kilometers in length. Around \$11 billion is currently earmarked for infrastructure

measures. The bulk of the funding, however, about \$33 billion, is slated for energy projects. The aim here is to alleviate chronic energy shortages, stimulate economic development and establish new industrial parks.

The implementation of the CPEC project has fueled a series of domestic political debates in Pakistan. Initially, a dispute arose between the provinces and the political parties over the road and railway routes between Gwadar in the country’s southwest and China in the northeast. This dispute has since given way to general agreement that there should be several routes ben-

efitting as many provinces as possible. But there is still ongoing debate over whether the “western” or the “eastern” route should be completed first. A second issue concerns the safety of Chinese personnel. There are already several thousand Chinese workers and experts in Pakistan and this number is likely to increase as CPEC proceeds. As Chinese are regularly attacked or abducted, for example by separatist groups in Balochistan, the army is in the process of deploying a special security division to protect them. A third issue is the dispute over the tax exemptions the Chinese government has demanded in return for easing credit terms and importing machinery from Pakistan.

CPEC and India-Pakistan Relations

CPEC will also have consequences for India-Pakistan relations. The corridor runs through the region of Gilgit-Baltistan (GB) in northern Pakistan. This region belongs to Jammu and Kashmir, to which both India and Pakistan have asserted claims. Since the accession of the former princely state to the Indian Union in October 1947, New Delhi has claimed the entire area for India and insists on resolving the dispute only with Islamabad. India invokes the 1972 Shimla Agreement, according to which disputes between the two countries are to be resolved through bilateral negotiation. Pakistan, in contrast, invokes a series of resolutions on Kashmir in the United Nations and views the former princely state as disputed territory, the affiliation of which is to be decided by referendum. The Kashmir dispute has been the cause of three of the four wars that India and Pakistan have waged against each other since 1947.

The Negative Scenario

The aim of CPEC is to improve economic development in Pakistan. In recent years, economic growth has been weaker than in other South Asian countries such as India, Bangladesh and Sri Lanka. Improved eco-

nomie development could lead to an increase in Pakistan’s military spending. This would presumably further fuel the arms race with India. So far, efforts to intensify economic relations with India have foundered on the resistance of Pakistan’s armed forces. The political rapprochement connected with the 1999 Lahore process and the 2004 Composite Dialogue has been undermined by military adventures like the 1999 Kargil War and major terrorist strikes like the 2009 Mumbai attacks.

A Pakistan economically strengthened by Chinese support would have little interest in expanding economic cooperation with India. Pakistan could then more forcefully place the Kashmir dispute on the foreign policy agenda, as it did intermittently in 2014/15. Major terror attacks in India, with or without the knowledge of the security forces in Pakistan, could lead to an escalation of the Kashmir dispute. This in turn would prompt the international community to intervene, thereby playing into Pakistan’s hands. If in the course of a renewed India-Pakistan conflict Chinese citizens were to be attacked, for example in Balochistan, where separatist groups operate, partially supported by India, this could also produce a crisis between New Delhi and Beijing.

In this scenario, the economic and political effects of CPEC would essentially prolong the negative cycle of India-Pakistan relations. In this case the positive economic effects that CPEC would have for Pakistan would spur a military build-up, which in turn would have negative effects on relations with India.

The Positive Scenario

On the other hand, a positive scenario is also conceivable in which CPEC exerts a moderating influence on India-Pakistan relations and the Kashmir dispute. In concrete terms, this would have an effect on the constitutional status of the Gilgit-Baltistan region in Pakistan, on the one hand, and on relations between China, Pakistan and India on the other.

As one would expect, the routing of the corridor through Gilgit-Baltistan, which is claimed by India, has prompted protests by the government in New Delhi. Gilgit-Baltistan has a special status in Pakistan. As it is part of Jammu and Kashmir, Pakistan officially considers it disputed territory and therefore refuses to accord it the rights of a province.

The special status of Gilgit-Baltistan has repeatedly led to protests by the local population, who demand more political participation and investments. Due to its strategic significance, the region is de facto controlled by the armed forces. Various Kashmiri rebel groups, which are supported by the armed forces in their fight against India, are said to run training camps here.

Pakistani governments have improved regional self-government through a series of reforms. As part of the last major reform in 2009, the former Northern Areas, among other areas, were renamed Gilgit-Baltistan. At the same time a legislative assembly was established in the region, which in contrast to provincial parliaments has only limited powers. The most recent elections in Gilgit-Baltistan in the summer of 2015 yielded a majority for the Pakistan Muslim League – Nawaz (PML-N), which governs in Islamabad.

Were CPEC to improve Pakistan's economic development, this could foment discontent in Gilgit-Baltistan over the growing gap between the region and other provinces. If the government were to respond to such protests by constitutionally upgrading the region to a province, it would simultaneously be undermining its own official stance in the Kashmir dispute, since as a province of Pakistan, Gilgit-Baltistan would no longer be a "disputed territory". The dispute with India would thus be indirectly ended, as both sides would have then completed the integration of the respective parts of Kashmir controlled by them into their state entities.

The second positive aspect of CPEC lies in the effects it could have on relations between and among China, Pakistan and India. The relationship with China has been

extolled for many years as extremely positive and described in metaphorical circumlocutions such as "higher than the Himalayas and deeper than the ocean". In formal terms, moreover, Pakistan is China's only strategic partner, though closer analysis shows that China is not the unconditionally reliable partner that Pakistan hopes for, above all in the dispute with India.

First of all, China does not support Pakistan's position on the Kashmir issue. Pakistan wants to resolve the matter through internationalization. China, in contrast, along with the US and the EU, among others, believes that the dispute should be resolved through bilateral talks. This stance corresponds to India's position. Second, during the 1999 Kargil War Beijing was not willing to stand with Pakistan against India. Third, at the 2008 Nuclear Suppliers Group (NSG) negotiations, which took place in the framework of the US-India Civil Nuclear Agreement, China voted for Indian exemptions that were heavily criticized in Pakistan. Fourth, India-China relations have improved considerably since the 1990s. The bilateral relationship continues to be marked by tensions, stemming for example from the unresolved border issue in the Himalayas. Nevertheless, the two countries have significantly expanded their political and economic cooperation in recent years, for example through participation in the BRICS group (Brazil, Russia, India, China, South Africa). In international negotiation rounds they regularly agree on common positions vis-à-vis the West. The accession of India (and Pakistan) to the Shanghai Cooperation Organisation (SCO) will strengthen cooperation between New Delhi and Beijing even further.

As mentioned above, China's participation in CPEC increases its vulnerability due to its substantial investments and the danger posed to its own citizens in the eventuality of renewed India-Pakistan hostilities. But as China's cooperation with Pakistan is focused on its armed forces rather than its political parties, China's influence could have a moderating effect on Pakistan's mili-

tary. Military adventures like the 1999 Kargil War would thus become less likely.

Conclusions

Pakistan places high economic hopes in CPEC. To what extent the project can really be carried out remains unclear. There has always been a gap between official announcements and the funds actually spent on Chinese projects in Pakistan. Nevertheless, in the medium to long-term CPEC is likely to have a positive effect on the economic development of the country, for example by contributing to improving Pakistan's infrastructure and easing its chronic energy shortage.

CPEC strengthens the strategic alliance between Pakistan and China. At first glance, it would therefore seem likely to exacerbate the dispute between Pakistan and India. But in Pakistan, too, there is a change of thinking taking place. For example, in Islamabad there is a growing understanding that supporting militant groups in order to achieve foreign policy objectives in neighboring countries such as India and Afghanistan is increasingly counterproductive and has negative effects on Pakistan's national security. Moreover, China nourishes hopes that CPEC and its economic effects will also contribute to the transformation of Pakistani society and the strengthening of moderate forces. China reasons that peaceful development in Pakistan could in turn also have a positive influence on the region, for example with regard to the situation in Afghanistan.

Securing Chinese trade routes by granting Gilgit-Baltistan the constitutional status of a province would codify the status quo, thus indirectly bringing the Kashmir dispute to an end and closing a chapter in global politics. India has already signaled in previous negotiations with Pakistan, for example in 2007, that it is willing to accept the status quo in Kashmir, which evinces the current division of the territory.

After all there is still a possibility, however unlikely, that India may one day en-

dorse the internationalization of the Kashmir dispute and a referendum. Were Kashmiris to then vote in favor of accession to the Indian Union, CPEC would become obsolete overnight.

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